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INTERNAL AUDITOR'S REPORT

Audit No. 2346

DATE: May 5, 2004

TO: Paula Burrier-Lund, Director
Housing and Community Services Department

SUBJECT: Department Control Review of Purchasing Card Program

We have completed a review of internal controls over purchasing card transactions of the Housing and Community Services/New Programs (Office on Aging, Special Programs and Veterans Service Office) for the period from July 1, 2002 through June 30, 2003. During the review period, these programs were under the former Community Services Agency (CSA). We performed this review in conjunction with our review of CEO/Purchasing's processes and internal controls over administering the purchasing card program.

Housing and Community Services was one of five departments included in this review, which also included the Assessor, Integrated Waste Management Department, Orange County Public Library, and the Public Defender. We issued the results of our review in separate reports to CEO/Purchasing and to the selected departments.

Our principal objective was to determine whether controls are adequate to ensure purchasing card transactions are valid, adequately supported, processed in accordance with management authorization and processed in compliance with County of Orange Purchasing Card Program policy and procedure manual (Purchasing Card Manual). Our review included testing for split purchases, duplicate vendor payments, and whether cardholder spending limits were exceeded.

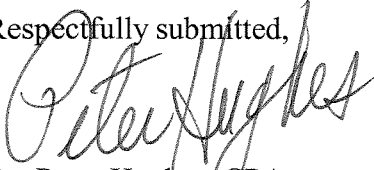
Our review determined that internal controls over purchasing card transactions in the Office on Aging and Special Programs need improvement to ensure purchasing card transactions are processed in accordance with management authorization and are in compliance with the Purchasing Card Manual. Specifically, improvement is warranted in the following areas:

- Ensuring proper supporting documentation exists at the time the Approving Official reviews and approves the payments.
- Ensuring documentation exists showing the Approving Official's review of purchasing card usage that may be unusual or questionable. This would include any inquiries made about the expenditure and the disposition of the matter.

Our observations and recommendations to improve controls, along with management responses are contained in this report. The complete text of responses from Housing and Community Services is contained in Appendix A of this report, and the complete text of responses from the Auditor-Controller is contained in Appendix B of this report.

We want to express our appreciation for the level of courtesy and cooperation extended to us by the personnel of Housing and Community Services and the Auditor-Controller during our review. If we can be of further assistance, please contact me directly or Eli Littner, Deputy Director at (714) 834-5899 or Michael Goodwin, Audit Manager at (714) 834-6066.

Respectfully submitted,



Dr. Peter Hughes, CPA
Director, Internal Audit

Audit Team:

Eli Littner, Deputy Director, CPA, CIA
Michael Goodwin, Audit Manager, CPA, CIA
Michael Dean, Senior Auditor, CIA
Toni Smart, Senior Auditor, CPA
Sonia Maceranka, Senior Auditor

Attachment

Distribution: Pursuant to Audit Oversight Committee Procedure No. 1
Members, Board of Supervisors
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Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
Jess Carbajal, Manager, HCS Admin./Community Development Services
David E. Sundstrom, Auditor-Controller
Mike Montijo, Manager, HCS Accounting
Danny Wassenaar, Manager, HCS Accounting – Grand Building

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

I. Allowable Uses of Purchasing Cards

The County of Orange Purchasing Card Program policy and procedure manual (Purchasing Card Manual) establishes the guidelines for allowable and non-allowable uses of purchasing cards. Section III.C of the Purchasing Card Manual states, “use of the card does not relieve the cardholder from adhering to County and agency/department purchasing policies and procedures.” Examples of other County purchasing policies and procedures include the Contract Policy Manual and the County of Orange Administrative Procedures for County Business Travel and Reimbursement of Related Expenses.

It came to our attention during this review that some differences exist between the Purchasing Card Manual requirements and other County policies pertaining to purchases and the approval and reimbursement of expenses incurred with purchasing cards. For example, the Purchasing Card Manual does not address whether various food purchases are allowable, such as food purchases for employees, and food purchases for external groups. In a separate audit report to CEO/Purchasing, we identified the issues we believe need clarification in the Purchasing Card Manual.

According to Auditor-Controller Claims & Disbursing management, when there are differences in County policies pertaining to the requirements for allowable expenditures, employees should adhere to the policy with the higher standards for documentation. For example, the Purchasing Card Manual requires merchant receipts to be obtained for all purchases, including food purchases. The County business travel policy states, “In accordance with IRS requirements, receipts will be required when meal expense exceeds \$75 for any one day.” In the case of food purchases, the Purchasing Card Manual requires a higher standard of documentation to help detect any unauthorized use of purchasing cards for meal expenses.

Many of the observations made in this report resulted from not having sufficient supporting documentation to substantiate the expenditures. For some of the exceptions noted in this report, we did not find evidence at the time of our fieldwork to support certain expenditures paid with purchasing cards. We found no documentation showing if certain expenditures were questioned and adequately resolved during the Approving Official’s review. (Note: during the review period, the CSA Accounting Manager was the Approving Official and will be referred to in this report as the Approving Official). It should be noted that after we issued our draft report, some additional supporting documentation was provided to us, but it was dated well after the expenditure had been made and approved for payment.

In our opinion, there should be adequate supporting documentation available for the Approving Official to review at the time of approval. Any questionable purchasing card uses, either because the allowable use is not clearly defined in the Purchasing Card Manual or because the expenditure seems unusual in nature, should be investigated and have the resolution documented in writing prior to approving the expenditures.

Another option to address the requirements for support documentation is to develop program or department-specific policy and procedures that would supplement the Purchasing Card Manual and other pertinent County policies. The supplemental policy and procedures could help clarify the appropriate uses of purchasing cards in specific programs, discuss the unique nature and business needs of the programs, and the requirements for supporting documentation. This could help reduce the amount of supporting documentation required when approving individual expenditures by referencing the supplemental policy.

We noted the following uses of purchasing cards that were either non-allowable, were not clearly addressed in the Purchasing Card Manual, or which lacked adequate supporting documentation to justify the usage of the purchasing card:

A. Meal Purchases

Because the Purchasing Card Manual does not clearly define uses of the card for food purchases, we referred to the County of Orange Administrative Procedures for County Business Travel and Reimbursement of Related Expenses. The procedure identifies what expenditures are allowable and reimbursable. Although the procedure does not specify payment methods, if an item is reimbursable, we also considered it an allowable use of the purchasing card. Section 13 of the travel procedure allows the following:

- Reimbursement of actual necessary and reasonable expense of meals, excluding alcoholic beverages, including customary gratuity/tips, while conducting official County business. An exception is for meals that are included as part of a registration fee paid in advance by the County for which no separate reimbursement will be made.
- The department/agency to provide actual reimbursement of necessary and reasonable expenses for refreshments or meals provided in conjunction with on or off-site meetings attended only by County employees which will extend over the normal break or meal periods.

Our review of all 52 purchasing card transactions noted the following:

- Nine purchases from local restaurants totaling over \$400 lacked supporting documentation to evidence that County employees received meals, that the meals were provided in conjunction with an on or off-site meeting, and that attendance over a normal meal period was mandatory. The Approving Official informed us that he subsequently confirmed the purchases met these requirements; however, there was no documentation to show that the Approving Official had this knowledge at the time of payment approval.
- A \$73 dinner meal was charged during employee travel for a conference. However, the related conference agenda noted that the registration fee included dinner. There was no documentation supporting why this meal was charged in lieu of attending the included dinner, and no support showing the inquiry and disposition of this matter.

- In September 2002, there was an instance where meals were purchased for the cardholder and three Orange County Workforce Investment Board members. We were provided with an email dated January 15, 2004, where the cardholder informed the Approving Official that the Department Head approved the meeting and that County business was conducted. However, we found no supporting documentation during our review that indicated that the meeting was mandatory over a normal meal period or any specific documentation describing that County business was conducted. Please note that this instance is one of the previously mentioned nine items that exceeded \$400.
- One hotel receipt included the purchase of an alcoholic beverage costing \$2.75.

Recommendation No. I.A.1

HCS ensure that adequate supporting documentation is obtained and reviewed for all meals provided in conjunction with an on or off-site meeting when submitting the expenses for payment approval. The documentation should support the business need of the meetings, show that meal expenses were for County employees only, and provide justification for allowable meal expenses.

HCS Department Response:

Concur. HCS agrees that cardholders must adhere to providing all the necessary supporting documentation as clearly defined in the County Policy and Procedures manual. All department cardholders will be held responsible for providing all necessary documentation to support the business need.

HCS Accounting Response:

Concur. Although receipts were provided and descriptions of the meetings were included in a log, we concur that documentation should support the business need of the meetings, indicate that meal expenses were for County employees, and provide justification for allowable in-County meal expenses.

Recommendation No. I.A.2

If the Purchasing Card Manual requirements are not well defined for certain expenditures, HCS should follow the appropriate County policy containing the higher documentation standards and requirements. One option to consider is developing program-specific policies and procedures that would supplement the Purchasing Card Manual in defining acceptable uses of purchasing cards and the requirements for supporting documentation.

HCS Department Response:

Concur. HCS will revise its departmental policy and procedures to address any discrepancies about usage, documentation, and over all requirements.

HCS Accounting Response:

Concur.

B. Travel Purchases

The County of Orange Administrative Procedures for County Business Travel and Reimbursement of Related Expenses, Section 6.4, requires all travel and reimbursement of related expenses to be approved in advance by a higher level of authority. We were unable to obtain evidence that the employee's travel was approved by management in advance for one trip where five purchases totaling \$193 were made.

Recommendation No. I.B

HCS ensure all purchasing card expenditures related to travel are approved by management in advance of the travel.

HCS Department Response:

Concur. The HCS Department has a requirement of all travel requests to be pre-approved by the department's Administration Division and the Department Head prior to travel arrangements being made. The department will continue to use the County of Orange Administrative Procedure for County related business travel and reimbursement of related expenses. Additionally, the Department will revise its travel and reimbursement procedures to require that all related expenses have supporting documentation and reimbursements will be provided within 10 working days following the activity.

HCS Accounting Response:

Concur. Although HCS has a policy to require advance approval of travel and related expenses, we concur that in this one instance, a copy of the travel approval form could not be located.

C. Authorized Cardholder Signature

Section III of the Purchasing Card Manual states that any cardholder who allows another person to use the card, or is aware that another person is using the card and takes no action to prevent it, may be responsible for reimbursing the County for all costs associated with the purchases. Additionally, the card will be immediately revoked and the cardholder may be subject to disciplinary action.

We found that someone other than the cardholder signed one credit card receipt. The Approving Official subsequently informed us that the cardholder left after placing an order and was unavailable to sign the credit card receipt. However, this should have been documented by either the cardholder or the Approving Official **prior** to payment approval.

Recommendation No. I.C

HCS ensure the authorized cardholder signs the credit card receipts. For any exceptions, there should be documentation supporting why someone other than the authorized cardholder signed the receipt.

HCS Department Response:

Concur. HCS agrees that only the authorized cardholder should be allowed to sign any and all transactions, and any exceptions must be fully documented.

HCA Accounting Response:

Concur. Although our review indicated that this was a valid County expenditure, we concur that in this unusual situation, additional documentation should have been provided.

II. Supporting Documentation

As discussed in report item I.A above, supporting documentation should be obtained for review at the time of payment approval for all purchasing card transactions. Supporting documentation includes merchant receipts, vendor invoices and shipping documents. Documentation should also include any inquiries made of any questionable purchasing card uses and the resolution.

Additionally, the Purchasing Card Manual requires all orders made by telephone, mail order, or Internet be documented by the cardholder on a purchasing card log at the time the order is placed.

A. Merchant Receipts and Invoices

Our review of all 52 purchasing card transactions noted that five direct merchant purchases totaling \$112 were not supported by merchant receipts or invoices. Some of these purchases could have been for personal uses (e.g. two purchases from Sav-on Drugs), which could not be determined due to the lack of merchant receipts.

Recommendation No. II.A

HCS ensure merchant receipts or invoices are obtained and retained for all credit card purchases.

HCS Department Response:

Concur. HCS requires that all supporting documentation be provided and will revise our department's Policies & Procedures as necessary to ensure that it is clearly defined.

HCS Accounting Response:

Concur. Merchant receipts or invoices should be obtained and retained for all credit card purchases. For four of the five exceptions noted, the billing official followed up with the cardholders in an attempt to obtain these receipts, however, these were not available. The fifth merchant receipt was not available because the cardholder went on leave and never returned.

B. Purchasing Card Log

Our testing found that three purchases made by telephone, mail order, or Internet were not documented on the purchasing card log as required by the Purchasing Card Manual.

Recommendation No. II.B

HCS ensure that a purchasing log is used and maintained as supporting documentation for all telephone, mail and Internet purchases.

HCS Department Response:

Concur. HCS currently employs the usage of the purchasing log for all purchases made through the telephone, mail, or Internet.

HCS Accounting Response:

Concur.

III. Billing Credit

A \$197 charge in March 2003 by the Renaissance Hotel was noted as “awaiting credit from hotel, charged in error” on the cardholder’s statement. As of November 2003 (8 months later), a credit had not yet been received. Not following-up on questionable or disputed items may result in the inability to obtain a timely billing credit and lost County revenue. The hotel was contacted in December 2003 and the credit was received on January 2, 2004.

Recommendation No. III

HCS ensure any questionable or disputed charges are researched and resolved timely.

HCS Department Response:

Concur. HCS currently follows all resolution procedures for disputed charges, which are found in the County Policy & Procedures. HCS will distribute Policies & Procedures to all cardholders to ensure clear understanding in handling disputed charges. All HCS disputed charges will be researched and resolution attempted within 20-days of activity.

HCS Accounting Response:

Concur. All questionable or disputed charges should be researched and resolved in a timely manner.

IV. Account Changes

Section X of the Purchasing Card Manual states that account changes (deletions) should be reported by the department/agency Billing Official to CEO/Purchasing. We were informed that one Approving Official retired in March 2003. However, during our fieldwork, the Approving Official was still listed as an active Approving Official in CEO/Purchasing records because it was not reported to them. The revision in duties was reported to CEO/Purchasing in November 2003.

Recommendation No. IV

HCS ensure that purchasing card program personnel changes are communicated timely to CEO/Purchasing.

HCS Department Response:

Concur. All changes to personnel using purchasing card will be communicated to CEO/Purchasing in a timely manner.

APPENDIX A

Housing and Community Services Management Responses



Housing & Community
Services Department
COUNTY OF ORANGE

MEMORANDUM

DATE: March 29, 2004
TO: Jim Ruth, County Executive Officer
FROM: Paula Burrier-Lund, Director
SUBJECT: HCS Response to Purchasing Card Audit No. 2346

Attached, please find the HCS Department and Auditor-Controller responses to the draft report for the Department Control Review of Purchasing Card Program Audit No. 2346. This audit was completed by the Internal Audit Department for the year July 1, 2002 through June 30, 2003 for the Divisions of Office on Aging, Special Programs, and Veterans Services, all of which were part of the former CSA Department at that time.

As you are aware, the CSA Department was dissolved in June 2003 and the four divisions have been merged with Housing and Community Development presently known as Housing and Community Services. Since July 2003 and as a part of the merge transition, the HCS Administration Division has begun providing oversight to the new merged divisions and implementing safeguards to ensure consistency with County wide policies for the use of purchasing cards.

Each of the observations have been reviewed by both HCS administrative staff and Auditor-Controller, and addressed in accordance with the audit oversight procedures.

Should you have any questions, please feel free to call me at 714-480-2805 or Jess A. Carbajal at 714-480-2820.

Attachments: HCS Response to Purchasing Card Audit No. 2346
Auditor-Controller Response to Purchasing Card Audit

cc: Vicki Wilson, Deputy CEO, Infrastructure and Environment
Fred Branca, Deputy CEO, Chief Financial Officer



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Housing & Community
Services Department
COUNTY OF ORANGE

ATTACHMENT

**Internal Audit Report
Department Control Review of Purchasing Card
Response Provided by Department of Housing & Community Services**

I. Allowable Uses of Purchasing Cards

A. Meal Purchases

Recommendation No. I.A.1

HCS ensures that adequate supporting documentation is obtained and reviewed for all meals provided in conjunction with an on-or off-site meeting when submitting the expenses for payment approval. The documentation should support the business need of the meetings, show that meal expenses were for County employees only, and provide justification for allowable meal expenses.

HCS Department Response:

Concur. HCS agrees that cardholders must adhere to providing all the necessary supporting documentation as clearly defined in the County Policy and Procedures manual. All department cardholders will be held responsible for providing all necessary documentation to support the business need.

Recommendation No. I.A.2

If the Purchasing Card Manual requirements are not well defined for certain expenditures, HCS should follow the appropriate County policy containing the higher documentation standards and requirements. One option to consider is developing program-specific policies and procedures that would supplement the Purchasing Card Manual in defining acceptable uses of purchasing cards and the requirements for supporting documentation.

HCS Department Response:

Concur. HCS will revise its departmental policy and procedures to address any discrepancies about usage, documentation, and over all requirements.



Paula Burrier-Lund, Director
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<http://www.ochousing.org> and <http://www.oc.ca.gov/csa/admin>

ATTACHMENT

**Internal Audit Report
Department Control Review of Purchasing Card
Response Provided by Department of Housing & Community Services**

B. Travel Purchases

Recommendation No. 1.B

HCS ensures that all purchasing card expenditures related to travel are approved by management in advance.

HCS Department Response:

Concur. The HCS Department has a requirement of all travel requests to be pre-approved by the department's Administration Division and the Department Head prior to travel arrangements being made. The department will continue to use the County of Orange Administrative Procedure for County related business travel and reimbursement of related expenses. Additionally, the Department will revise its travel and reimbursement procedures to require that all related expenses have supporting documentation and reimbursements will be provided within 10 working days following the activity.

C. Authorized Cardholder Signature

Recommendation No. IC

HCS ensures that the authorized cardholder signs the credit card receipts. For any exceptions, there should be documentation supporting why someone other than the authorized cardholder signed the receipt.

HCS Department Response:

Concur. HCS agrees that only the authorized cardholder should be allowed to sign any and all transactions, and any exceptions must be fully documented.

II. Supporting Documentation

A. Merchant Receipts and Invoices

Recommendation No. II.A

HCS ensures that merchant receipts or invoices are obtained and retained for all credit card purchases.

HCS Department Response:

Concur. HCS requires that all supporting documentation be provided and will revise our department's Policies & Procedures as necessary to ensure that it is clearly defined.

ATTACHMENT

**Internal Audit Report
Department Control Review of Purchasing Card
Response Provided by Department of Housing & Community Services**

B. Purchasing Card Log

Recommendation No. II.B

HCS ensures that a purchasing log is used and maintained as supporting documentation for all telephone, mail, and Internet purchases.

HCS Department Response:

Concur. HCS currently employs the usage of the purchasing log for all purchases made through the telephone, mail, or Internet.

III. Billing Credit

Recommendation No. III

HCS ensures that any questionable or disputed charges are researched and resolved timely.

HCS Department Response:

Concur. HCS currently follows all resolution procedures for disputed charges, which are found in the County Policy & Procedures. HCS will distribute Policies & Procedures to all cardholders to ensure clear understanding in handling disputed charges. All HCS disputed charges will be researched and resolution attempted within 20-days of activity.

IV. Account Changes

Section X of the Purchasing Card Manual states that account changes (deletions) should be reported by the department/agency Billing Official to CEO/Purchasing. We were informed that one Approving Official retired in March 2003. However, during our fieldwork, the Approving Official was still listed as an active Approving Official in CEO/Purchasing records because it was not reported to them. The revision in duties was reported to CEO/Purchasing in November 2003.

Recommendation No. IV

HCS ensures that purchasing card program personnel changes are communicated promptly to CEO/Purchasing.

HCS Department Response:

Concur. All changes to personnel using purchasing card will be communicated to CEO/Purchasing in a timely manner.

APPENDIX B

Auditor-Controller Management Responses



DAVID E. SUNDSTROM, CPA
AUDITOR-CONTROLLER

AUDITOR-CONTROLLER COUNTY OF ORANGE

HALL OF FINANCE AND RECORDS
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ASSISTANT AUDITOR-CONTROLLER
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MAHESH N. PATEL
ASSISTANT AUDITOR-CONTROLLER
INFORMATION TECHNOLOGY

March 26, 2004

TO: Paula Burrier-Lund, Director
Housing and Community Services

SUBJECT: Response to HCS Purchasing Card Audit

RECEIVED
INTERNAL AUDIT DEPARTMENT
2004 MAR 30 PM 12:29

We reviewed the draft audit report prepared by the Internal Audit Department covering the purchasing cards used by three Housing and Community Services Divisions (Office on Aging, Special Programs and Veterans Service Office) for the period from July 1, 2002 through June 30, 2003. During the review period, these programs were under the former Community Services Agency (CSA) and the final review and approval of purchasing card transactions for the Office on Aging and Special Programs was conducted by CSA Accounting (now HCS Accounting). Subsequently, the oversight of these cards was reassigned to HCS Administration.

We concur with the recommendations made in the draft audit report that relate to processes that were under the control of HCS accounting operations. This includes all report items except for item IV, Account Changes, which applied to CSA Administration. Our response is attached. HCS will respond in a separate letter regarding the actions taken to address the audit findings and recommendations on a prospective basis.

Please call Mike Montijo at 480-2848 if you have any questions regarding this letter.

David E. Sundstrom
Auditor-Controller

MM:lr (HCS Purchasing Card Resp Ltr/agency)
Attachment

cc: Peter Hughes, Director, Internal Audit Department
Shaun M. Skelly, Assistant Auditor-Controller, Agency Accounting

Attachment

Internal Audit Report Department Control Review of Purchasing Cards Housing and Community Services Department

I. Allowable Uses of Purchasing Cards

A. Meal Purchases

Recommendation No. I.A.1

HCS ensure that adequate supporting documentation is obtained and reviewed for all meals provided in conjunction with an on-or off-site meeting when submitting the expenses for payment approval. The documentation should support the business need of the meetings, show that meal expenses were for County employees only, and provide justification for allowable meal expenses.

Auditor-Controller Response:

Concur. Although receipts were provided and descriptions of the meetings were included in a log, we concur that documentation should support the business need of the meetings, indicate that meal expenses were for County employees, and provide justification for allowable in-County meal expenses.

Recommendation No. I.A.2

If the Purchasing Card Manual requirements are not well defined for certain expenditures, HCS should follow the appropriate County policy containing the higher documentation standards and requirements. One option to consider is developing program-specific policies and procedures that would supplement the Purchasing Card Manual in defining acceptable uses of purchasing cards and the requirements for supporting documentation.

Auditor-Controller Response:

Concur.

B. Travel Purchases

Recommendation No. I.B

HCS ensure all purchasing card expenditures related to travel are approved by management in advance of the travel.

Auditor-Controller Response:

Concur. Although HCS has a policy to require advance approval of travel and related expenses, we concur that in this one instance, a copy of the travel approval form could not be located.

C. Authorized Cardholder Signature

Recommendation No. I.C

HCS ensure the authorized cardholder signs the credit card receipts. For any exceptions, there should be documentation supporting why someone other than the authorized cardholder signed the receipt.

Auditor-Controller Response:

Concur. Although our review indicated that this was a valid County expenditure, we concur that in this unusual situation, additional documentation should have been provided.

II. Supporting Documentation

A. Merchant Receipts and Invoices

Recommendation No. II.A

HCS ensure merchant receipts or invoices are obtained and retained for all credit card purchases.

Auditor-Controller Response:

Concur. Merchant receipts or invoices should be obtained and retained for all credit card purchases. For four of the five exceptions noted, the billing official followed up with the cardholders in an attempt to obtain these receipts, however, these were not available. The fifth merchant receipt was not available because the cardholder went on leave and never returned.

B. Purchasing Card Log

Recommendation No. II.B

HCS ensure that a purchasing log is used and maintained as supporting documentation for all telephone, mail and Internet purchases.

Auditor-Controller Response:

Concur.

III. Billing Credit

Recommendation No. III

HCS ensure any questionable or disputed charges are researched and resolved timely.

Auditor-Controller Response:

Concur. All questionable or disputed charges should be researched and resolved in a timely manner.